

Message Text

CONFIDENTIAL

PAGE 01 LONDON 00905 01 OF 02 191940Z

43

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INFO AMEMBASSY PARIS

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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 00905

DEPARTMENT PASS TREASURY AND FRB

LIMDIS GREENBACK

E.O. 11652: XEDS-1

TAGS: EFIN, UK

SUBJECT UK THOUGHTS ON MONETARY REFORM: POST-JAMAICA

INTEPIM COMMITTEE MEETING AND PROSPECTS FOR UK

BALANCE OF PAYMENTS FINANCING NEEDS IN 1976.

1. ON JANUARY 16, FINANCIAL ATTACHES MET WITH SIR DEREK MITCHELL, SECOND PERMANENT SECRETARY, AT U.K. TREASURY TO DISCUSS OUTCOME OF JAMAICA INTERIM COMMITTEE MEETING AND FOR TOUR D'HORIZON OF UK'S BALANCE OF PAYMENTS FINANCING NEEDS DURING 1976. MITCHELL EXPRESSED SOME PERSONAL UNCERTAINTY AS TO THE EVENTUAL EFFECTS OF THE IMF GOLD AGREEMENT, ADDING THAT THERE ARE STILL TECHNICAL ASPECTS OF THE SALES TO BE WORKED OUT. HE EXPECTS THAT THESE TECHNICALITIES WILL BE DISCUSSED AT THE NEXT BASLE MEETING IN SWITZERLAND. THE MOST IMPORTANT IMMEDIATE ISSUE TO BE SOLVED WILL BE THE RELATIONSHIP BETWEEN THE FUND, THE BIS AND IMF MEMBER COUNTRIES BIDDING THROUGH THE BIS. THE UK HAS NO PLANS TO BUY OR SELL GOLD. MITCHELL STATED
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PAGE 02 LONDON 00905 01 OF 02 191940Z

THAT HE FELT THE RECENT DECLINE IN THE MARKET GOLD PRICE

SIGNIFIES THAT THE MARKET FEELS THAT GOLD IS ON ITS WAY OUT WITH THE MONETARY SYSTEM.

2. WHEN QUESTIONED ABOUT PRESS REPORTS CONCERNING A COMPROMISE AT JAMAICA BETWEEN THE LDCS AND THE INDUSTRIAL COUNTRIES, MITCHELL STATED THAT THIS ISSUE HAD BEEN OVERPLAYED BY THE PRESS. HE REPORTED THAT GERMAN FINANCE MINISTER APEL HAD SENT A LETTER TO THE LONDON TIMES "TICKING THEM OFF" FOR THEIR MISREPORTING OF HIS STATEMENTS ABOUT CHANCELLOR HEALEY'S ALLEGED REMARKS THAT THE LDCS HAD BLACKMAILED THE INDUSTRIAL COUNTRIES. IN MITCHELL'S VIEW, GERMANY HAD A BASIC PHILOSOPHICAL PROBLEM OF GIVING IN TO THE LDC DEMANDS: MUCH MORE SO IN FACT THAN THE US WHEN FACED WITH A CONFRONTATION SITUATION. IN THE END, MITCHELL BELIEVED THAT BOTH THE US AND GERMANY REALIZED THAT UNLESS SOME COMPROMISE WAS REACHED, THE ENTIRE INTERIM COMMITTEE MEETING COULD HAVE RESULTED IN A FIASCO.

3. MITCHELL VOICED SOME SURPRISE AT THE "CURIOUS EXPANSION OF IMF CREDIT TRANCHES." THE UK, HE SAID, WENT TO JAMAICA WITH THE IDEA OF GIVING NOTHING TO THE LDCS UNTIL ACTIVITIES IN THE CIEC HAD HAD TIME TO DEVELOP. MITCHELL ANTICIPATED THAT SOME ADDITIONAL LDC FINANCE MEASURES WOULD COME UP AT THE JAMAICA MEETING OF THE INTERIM COMMITTEE, BUT HE HAD NOT EXPECTED THE BREADTH OF PROGRAMS ANNOUNCED.

4. AS TO THE USE OF OPEC CURRENCIES BY THE IMF, MITCHELL FELT THAT THE OPEC COUNTRIES WANTED ALL THE BENEFITS OF IMF MEMBERSHIP WITHOUT ACCEPTING THE RESPONSIBILITIES. HE WAS UNAWARE AS TO THE FINAL SOLUTION FOR THE USE OF THESE CURRENCIES, BUT FELT THAT THIS MATTER WOULD BE ADMINISTRATIVELY WORKED OUT BY THE FUND STAFF; HE DID NOT ANTICIPATE THE OPEC COUNTRIES WOULD ACCEPT ANY LEGALLY BINDING MANDATE.

5. MITCHELL EXPRESSED SOME SURPRISE THAT THERE WAS NO ENTHUSIASM EVIDENCED FOR MAKING FIRM ARRANGEMENTS FOR THE NEXT INTERIM COMMITTEE MEETING. WHEN A JUNE DATE HAD BEEN PROPOSED, NO ONE SHOWED ANY ENTHUSIASM. THE
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PAGE 03 LONDON 00905 01 OF 02 191940Z

GENERAL ATMOSPHERE IS THAT "NOW THE HEAT IS OFF." NONE-
THELESS, MITCHELL FELT THAT LOOKING AHEAD, FINANCE MINISTERS ARE NOW FREE TO TALK ABOUT THE INTERRELATIONSHIP OF DOMESTIC ECONOMIC POLICIES AND THEIR EFFECTS ON THE INTERNATIONAL COMMUNITY AS A WHOLE. ONE ISSUE WHICH MITCHELL FEELS THE INTERIM COMMITTEE SHOULD TURN ITS ATTENTION TO IS THE RECURRING QUESTION OF THE QUANTUM OF INTERNATIONAL LIQUIDITY.

6. TURNING TM THE UK'S NEED FOR BALANCE OF PAYMENTS FINANCING IN 1956, MITCHELL SAID THERE IS NO SOLID ASSESSMENT THUS FAR AS TO 1976 NEEDS. THIS ASSESSMENT WILL BE

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PAGE 01 LONDON 00905 02 OF 02 191938Z

43

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A PART OF THE IMMEDIATE PRE-BUDGET FORECAST, DUE TO TAKE PLACE IN MID-FEBRUARY. MITCHELL DID CONFIRM THAT THERE IS SOME UNCERTAINTY OVER THE \$400 MILLION SECOND CREDIT TRANCHE DRAWING FROM IRAN, ALTHOUGH HE SAID THIS IS NOT A DESPERATE PROBLEM FOR THE UK. MITCHELL DID BELIEVE, HOWEVER, THAT IF IRAN IS HAVING BALANCE OF PAYMENTS DIFFICULTY, IT MAY SIGNIFY A CRACK IN THE OPEC CARTEL. ASSUMING THAT IT WILL BE RECEIVED, THE TIMING OF THE \$400 MILLION IS NOT SO IMPORTANT TO THE UK SINCE THE IMF OIL FACILITY AND FIRST CREDIT TRANCHE DRAWING ARE AVAILABLE. MITCHELL STATED THAT THE LIKELIHOOD OF GOING TO THE IMF FOR A SECOND AND THIRD CREDIT TRANCHE DRAWING IS REMOTE AT THIS TIME. A MARKET FINANCING IS POSSIBLE, BUT DOMESTIC POLICIES WILL BE CRITICAL TO UK PRIVATE MARKET ACTIVITIES.

7. DOMESTICALLY, MITCHELL STATED THE SECOND STAGE OF INCOMES POLICY IS THE MOST IMPORTANT SINGLE ISSUE AT THIS TIME. UNION REACTION AND ACCEPTANCE OF THE SECOND STAGE INCOMES POLICY IS CRITICAL. IT WILL AFFECT INTERNATIONAL MARKET VIEWS OF UK CREDITWORTHINESS. IF THE CORRECT DO-
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PAGE 02 LONDON 00905 02 OF 02 191938Z

IF DOMESTIC POLICIES ARE ADOPTED, THEN FINANCING WILL FALL INTO PLACE. WITHOUT ELABORATING, MITCHELL STATED THAT SOME IMF STAFF MEMBERS URGED THE UK TO INTRODUCE MORE RIGOROUS DOMESTIC POLICIES. THE EFFECT OF WHICH WOULD HAVE ADDED TO UNEMPLOYMENT. THESE SUGGESTIONS WERE TOTALLY UNACCEPTABLE AND WOULD POSSIBLY MAKE GOING TO THE FUND FOR ADDITIONAL TRANCHE DRAWINGS MORE DIFFICULT.

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